



B. Jeannie Fry  
Director-Federal Regulatory

SBC Telecommunications, Inc.  
1401 I Street, N.W.  
Suite 1100  
Washington, D.C. 20005  
Phone 202 326-8894  
Fax 202 408-4806

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September 2, 1999

Ex Parte

Ms. Magalie R. Salas  
Secretary  
Federal Communication Commission  
Room TW-A325, The Portals  
445 Twelfth Street  
Washington, D.C. 20554

RECEIVED  
SEP 02 1999  
FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

Re: CC Docket No. 98-137, In the Matter of 1998 Biennial Review—Review of Depreciation Requirements for Incumbent Local Exchange Carriers

ASD Docket No. 98-91, USTA Petition For Forbearance from Depreciation Regulation

CC Docket No. 98-177, In the Matter of 1998 Biennial Regulatory Review—Petition for Section 11 Biennial Review filed by SBC Communications Inc., Southwestern Bell Telephone Company, Pacific Bell and Nevada Bell

Dear Ms. Salas:

In accordance with the Commission's rules, please be advised that on September 1, 1999, Mr. Pat Doherty, Mr. Larry Canedy and the undersigned met with the following in separate meetings:

- Ms. Dorothy Atwood, Legal Advisor, Office of Chairman Kennard
- Mr. Bill Bailey, Legal Advisor, Office Of Commissioner Furchtgott-Roth
- Ms. Linda Kinney, Legal Advisor, Office of Commissioner Ness
- Ms. Sarah Whitesell, Legal Advisor, Office of Commissioner Tristani

The purpose of the meeting was to urge the FCC to grant the Petition filed by USTA to forbear from regulating depreciation lives and rates. With forbearance Local Exchange Carriers (LECs) will use the same lives based upon Generally Accepted Accounting Principles ("GAAP") for both FCC *financial* reporting purposes and external *financial* reporting GAAP purposes. At the same time, the FCC could also simultaneously set forth forward looking "principles" stating that when a copy adopts GAAP for regulatory

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reporting purposes, depreciation lives and rates should be forward looking, consider the rate of technological change and the expected decrease in value.

A summary of the discussion is outlined in the attached. Also attached is a copy of the publication, "Comparison of Economic Life Techniques." ©<sup>1</sup> An original and one copy of this letter and the attachments are being submitted. Acknowledgement and date of receipt of this transmittal are requested. A duplicate transmittal letter is attached for this purpose.

Please include this letter in the record of these proceedings in accordance with Section 1.1206(a)(2) of the Commission's Rules.

If you have any questions on this, please do not hesitate to contact Ms. Jeannie Fry at 202-326-8894.

Sincerely,

A handwritten signature in black ink, appearing to read "BJ Zammit".

Attachments

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<sup>1</sup> Please note that this document is copyrighted and therefore copying restrictions apply. However, this document is publicly available. See "Comparison of Economic Life Techniques," Technology Futures Inc., 1999. For additional information, contact Mr. Larry Vanston at 512.258.8898. (Please note that one copy is being filed with the Secretary of the Commission and a courtesy copy is also being provided to Mr. Thom David, Accounting Safeguards Division.)

Cc: Ms Dorothy Atwood, Legal Advisor, Office of Chairman Kennard  
Mr. Bill Bailey, Legal Advisor, Officer of Commissioner Furchtgott-Roth  
Ms. Linda Kinney, Legal Advisor, Officer of Commissioner Ness  
Ms. Sarah Whitesell, Legal Advisor, Office of Commissioner Tristani  
Mr. Larry Strickling, Chief of the Common Carrier Bureau  
Mr. Ken Moran, Chief, Accounting Safeguards Division  
Mr. Tim Peterson, Deputy Chief, Accounting Safeguards Division  
Mr. Thom David, Accounting Safeguards Division  
Mr. Howard Schelanski, Office of Plans and Policy  
Mr. Pat DeGraba, Office of Plans and Policy  
Mr. Jay Atkinson, Competitive Pricing Division  
Ms. Lisa Zaina, Deputy Bureau Chief, Common Carrier Bureau  
Mr. Don Stockdale, Common Carrier Bureau  
Mr. Bob Loube, Economist, Accounting Policy Division  
Mr. Craig Brown, Deputy Chief, Accounting Policy Division

**CC Docket 98-137**  
**Biennial Review of Depreciation Rate Regulation**  
**SBC Communications Inc.**

**I. Forward looking Depreciation Lives should be used for Part 32—  
Reporting Interstate Rate of Return—USF—UNE Cost Studies.**

- FCC Ranges employed for USF cost proxy models, Part 32, and state UNE Cost Studies.
- Plant end dates projected must be representative and updated as information/ technology becomes available.

**II. FCC Prescribed Ranges for lives are Backward Looking and out of date.**

- Ranges established from lives prescribed in the 1991-1993 time period.
- Prescribed lives determined from projected retirements not technology exhaust forecasts.
  - Prescription and forthcoming ranges are invalid. Texas analog example (Attach. 1)
- Ranges far longer than comparable company lives e.g. AT&T. (Attach. 2)

**III. Commission should forbear from depreciation regulation as filed by USTA.  
Allow Price Cap carriers to use GAAP lives for financial and regulatory reporting  
(Part 32, USF, and UNE Costs).**

- GAAP requires forward looking lives and updates to lives as information arises.
- SBC determines GAAP lives from forward projections of TFI.(Vanston) and information from plant replacement programs.
- GAAP lives are audited and held out to the financial analysis community for scrutiny.
- Commission should set out principles 1) requiring forward looking lives and 2)mandating a match between regulatory lives and financial lives(GAAP)
- Staff reality tests of lives can consist of comparisons to lives of IXC's, CLECs, Cable cos.

**IV. GAAP Depreciation Lives would reduce Stranded Plant problems.**

- SBC reserve deficiency is \$7.7 Billion(1998)-GAAP lives versus Part 32.
- GAAP lives would reduce the deficiency over time.
- California PUC eliminated depreciation reviews and approvals for Pacific(10/98). Order concludes that (company determined lives) precludes "new stranded investment".
- FERC allowed recovery of stranded investment for gas(1992)/electric(1996) companies transitioning to a competitive environment. FERC does not regulate depreciation rates.

**V. Two depreciation systems –GAAP and regulatory-squander people/resources.**

- SBC spends \$500 K annually when filing depreciation studies with the Staff.
- Two accounting depreciation systems/tax adjustment processes are required.

**VI. LFAM elimination should rest upon a carrier opting into pricing flexibility.**

**VII. SBC urges the FCC to forbear from regulation. Allow Price Cap Carriers to use  
GAAP Based Depreciation Lives for regulatory reporting and costing.**

- In the alternative, allow the price cap carrier option which requires informational filing upon changes to lives.

## **Attachment 1**

### **Texas Analog Central Office Switch Lives SWBT**

**Forecasted  
Average Service Life  
FCC Prescribed –1989  
16.0 Years**

**Actual Experience  
Average Service Life  
1998 Data(Same Plant)  
8.9 Years**

**Vanston(TFI)  
Forward Looking Projection  
1989  
11 Years to final retirement**

## Attachment 2

### **FCC Prescribed Life Ranges (LECs) compared to Competitors Economic Lives** **(in years based on most available data)**

<b>Plant Category</b>	<b>FCC Prescribed Ranges for ILECs (1)</b>	<b>Southwestern Bell Financial Reporting Lives(GAAP)</b>	<b>Pacific Bell Financial Reporting Lives (GAAP)</b>	<b>AT&amp;T (2)</b>	<b>Electric Lightwave (2)</b>	<b>TCG (2)</b>
<b>Digital Switching</b>	<b>13-18</b>	<b>11</b>	<b>10</b>	<b>9.7</b>	<b>10</b>	<b>10</b>
<b>Digital Circuit</b>	<b>11-13</b>	<b>9</b>	<b>8</b>	<b>7.2</b>	<b>10</b>	<b>8</b>
<b>Fiber Optic Cable</b>	<b>25-30</b>	<b>20</b>	<b>20</b>	<b>20</b>	<b>20</b>	<b>20</b>
<b>ATT-Lives for <u>all</u> Communications and network plant (1998 Annual Report)</b>				<b>3-15</b>		

**Sources:**

*(1)FCC Prescribed range for digital switching from: FCC NPRM, July 22, 1998, CC Docket No. 98-137.*

*--FCC prescribed ranges for all other plant categories from FCC Third Report and Order, May 5, 1995, CC Docket No. 92-296.*

*(2)Depreciation rates for AT&T, ELI and TCG as of 1995 from: Testimony of Robert Harris On Behalf of U S West Communications Inc. Before the Arizona Corporation Commission, AT&T-U S WEST Interconnection Arbitration, Docket No. U2428-96-417, September 30, 1996, p. 38.*

# COMPARISON OF ECONOMIC LIFE TECHNIQUES

**STEPHEN L. BARRECA**

**TECHNOLOGY  
FUTURES INC.**

# Comparison of Economic Life Techniques

*Case Studies of  
Various Economic Life  
Estimation Techniques for Mass Property  
Influenced by Technological  
Obsolescence*

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*Stephen L. Barreca*

**Technology Futures, Inc.**



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13740 Research Boulevard, Building C

Austin, Texas 78750-1859

(800) 835-3887

(512) 258-8898

Fax: (512) 258-0087

Internet: <http://www.tfi.com>

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